

2007

MARKET STUDY GUIDEMARKET STUDY PROCESS

IFA will commission a market study for all Applications. The Developer may elect to have IFA commission a market study prior to the Application due date (Pre-Application) or have IFA commission the market study after the Application is submitted (Post-Application). The fee for the IFA commissioned market study is due by the Pre-Application submission deadline or with the Application submission deadline, depending on when the market study is to be commissioned. IFA strongly recommends that prior to submitting the information required for the IFA commissioned market study Developers independently obtain market information sufficient to satisfy their own concerns as to market viability as outlined in this Market Study Guide. Developers are encouraged to submit any market information they believe may be helpful in determining the market feasibility of their project, including an independent market study, information from proposed service providers, or other market information the market study analyst should evaluate. The Developer must submit two copies of all market information and IFA's market study information form.

All market information provided by the Developer will be provided to IFA's commissioned market analyst. By submitting this information, Developers are afforded the opportunity to provide input that may be important in the determination of market feasibility. However, IFA will not be bound by the opinion or conclusions reached in the Developer's independent market study or other information provided. Market feasibility for a project as measured by the IFA commissioned market analyst will be based on, but not limited to, the following factors: market capture rate; absorption period; market support of unit mix; stabilized occupancy rate; vacancy rates of comparables, rent comparison to comparables; and impact on the market and financial health of comparables in the market area.

The market analyst commissioned by IFA may contact the Developer to clarify the information provided by the Developer regardless of when the study is completed. If the market study or IFA's analysis of the market study which may contain independent information obtained by IFA do not demonstrate, at the sole discretion of IFA, that the market area needs the project, the project will be rejected at threshold and will not be scored. The following paragraphs detail the Pre-Application and Post-Application market study process:

PRE-APPLICATION MARKET STUDIES

If the Developer elects to have IFA commission a market study prior to the Application, the fee and information required for the IFA commissioned market study must be received by IFA by 3:00 p.m. Central Time the date it is due (the due date will be posted on IFA's website). The Developer will be permitted to make allowable changes in their proposed project as recommended by the IFA commissioned market study without further correspondence with the Market Study Provider and IFA. The allowable changes if recommended will be limited to: income targeting, rents, bedroom mix and project size.

The IFA commissioned Market Study Provider will be given a deadline to submit the completed market study to IFA. IFA will have up to 3 business days to distribute the completed market study to the Developer by overnight mail. The Developer will have approximately two weeks to review the study.

A date will be established (as posted on the IFA website) which will start a two week email correspondence period. During this period the Developer can direct questions to the Market Study Provider relating to the IFA commissioned market study. The Market Study Provider will respond to Developer in writing via email. IFA must be copied on all email correspondence sent by either the Developer or Market Study Provider (IFA contact name(s) and email address will be provided on the IFA website). At the end of the email correspondence period IFA must be able to determine the market study provider's recommendations for allowable changes which were not identified in the original study by the Developer.

If the final application submitted by the Developer does not reflect the original market study information or allowable changes have been made without recommendation of the Market Study Provider (in the market study or defined in the correspondence period) the market study will be considered substantially changed.

If the Developer chooses to make allowable changes when submitting the final application without recommendation an additional fee will be required to update market study conclusions and recommendations (see IFA website for required fee). At IFA's sole discretion, if substantial changes are found after application is submitted and no fee is provided to update market study then the market study will be rejected and the application will not pass threshold.

POST- APPLICATION MARKET STUDIES

Developers that do not elect to have IFA commission a market study Pre-Application will be required to submit the fee and market study information with the Application. The fee and information required for the IFA commissioned market study must be received by IFA by 3:00 p.m. Central Time the date it is due (the due date will be posted on IFA's website). Market study information provided to IFA must mirror information provided within the application; otherwise, at IFA's sole discretion, the Application may be rejected. The Developer will not receive a copy of the market study until tax credit awards have been made.

2007

Market Study Requirements

The market study prepared for IFA must evaluate the need for decent, safe, and sanitary housing as proposed by the applicant (including, but not limited to an evaluation of the proposed rents, bedroom distribution and target population). The market study must determine the feasibility of the project and state a conclusion as to the impact of the project with respect to the determined housing needs. The market study must be self-contained, and must describe in sufficient detail and with adequate data to support the conclusions.

Market analysts are required to submit a complete and in-depth market study that conforms to the format outlined below. The market study must contain a statement by the analyst that the report was written according to IFA's market study requirements, that the information included is accurate and that the report can be relied upon by IFA as a true assessment of the low-income housing rental market. Analysts are encouraged to provide supplemental data and analysis. All data must relate back to the project. Any third party reports relied upon by the market analyst must be verified directly by the market analyst as to the validity of the data and the conclusions.

Market analysts are also required to compare and contrast the relative strengths and weaknesses of projects that are competing within the same market and make a final recommendation as to which project(s) would best serve low to moderate income renters in the market.

The final market study must be submitted in the prescribed order and format, and must provide the following information:

Section 1. Executive Summary

The Executive Summary includes the summary and conclusions of the market analyst that were derived from the market analysis. Such explanations should lead the reader to the same or similar conclusions as to the feasibility of the project as well as the effect the project has on fulfilling the determined housing need. At a minimum, the executive summary requires that the market analyst provide their conclusions based on the evaluation of the project in terms of:

- 1.1 Provide a brief summary of the most pertinent findings for each section listed below;
- 1.2 Provide an analysis of the capture rates based on the proposed rents by unit type and eligible tenant target population;
- 1.3 Provide an analysis of the penetration rates;
- 1.4 Provide an analysis of the appropriateness of unit rents, unit mix and unit sizes for the low-to-moderate income rental market. Also, provide absorption projections for each unit type and for the project as a whole;
- 1.5 Provide an analysis of comparable and competing units in the primary market area including their average vacancy rates and net and gross rent levels compared to the project;

- 1.6 Provide an analysis, given the capture rate provided above, of the impact the project will have on the vacancy rates and rents of comparables in the primary market area; and
- 1.7 Provide a candid, detailed conclusion about the strength of the market for the project as proposed.

Section 2. Project Description

Information provided in this section must directly correlate with the application submitted to IFA.

- 2.1 Project name, street address and Developer.
- 2.2 Construction type: New Construction/Rehab/Adaptive Reuse, etc.
- 2.3 Occupancy type: Small Family, Large Family (3 or more bedrooms), Older Persons, Affordable Assisted Living, People with Disabilities, etc.
- 2.4 Tenant composition by income levels (40/50/60% and market rate).
- 2.5 Special Population Target (if applicable).
- 2.6 Number of units by unit type.
- 2.7 Unit size in square footage, number of bedrooms, number of bathrooms and structure type (i.e. townhouse, garden apartment, row, single family detached, etc).
- 2.8 Rents and Utility Allowances.
- 2.9 Existing or proposed project based rental assistance.
- 2.10 Unit and project amenities (washer/dryer hookups, dishwashers, microwaves, garages, community room, parking spaces, etc.).
- 2.11 For rehab projects, detailed scope of work, current occupancy levels, rents, and tenant incomes, if available.
- 2.12 Projected placed in service date.

Section 3. Site Evaluation

- 3.1 The market analyst must physically visit the site and the market area in general. Provide the date(s) that the market analyst made the site visit(s).
- 3.2 Describe physical features of the site and adjacent parcels. Positive and negative attributes of the site must be described in relation to their impact on overall market demand. Market analyst must include a detailed description of the surrounding land uses, the site's physical relation to surrounding roads, public transportation stops, amenities, employment, services, and the condition of the physical structures/neighborhoods surrounding the site.
- 3.3 Include good quality labeled color photographs of the site (front, rear and side elevations, on-site amenities, interior of typical units, if available). Also include photographs of the neighborhoods and street scenes with a description of each vantage point.

- 3.4 Include a map clearly identifying the location of the project.
- 3.5 Describe the type of development(s), if any, located in the vicinity of the site (i.e. vacant land, commercial/business, industrial, public housing). Indicate proximity in miles to the site. Describe all developments on either side of the site as well as in front and in back of site. Indicate present condition of the developments. Discuss neighborhood land use and housing characteristics and compatibility with the project. Discuss the zoning of surrounding area and if it is likely to change.
- 3.6 Include a map identifying all existing low-income housing (Tax Credit projects, Rural Development projects, Public Housing, etc.) within the market area. Indicate proximity in miles of these properties to the site.
- 3.7 Indicate if there are any road or infrastructure improvements planned or under construction in the market area.
- 3.8 Comment on access, ingress/egress, and visibility of the site.
- 3.9 Note any visible environmental or other concerns.
- 3.10 Overall conclusions about site as they relate to marketability of the project.

Section 4. Primary Market Area.

- 4.1 Provide a detailed description of the primary market area of the project. The primary market area is defined as that geographical area from which approximately 70% of potential renters are expected to be drawn; the remainder of the potential renters will come from outside the primary market area. The primary market area must be clearly outlined and the site identified on a map along with other details regarding the area (site location, neighborhood/surrounding amenities, and comparable rental properties). The use of a radius in establishing market areas is highly discouraged. The market area must be specifically justified and the analyst must describe the methodology and reasoning used to determine the primary market area in the form of a narrative. Provide a reasonable rationale for the suggested primary market area, taking into account such things as political and natural boundaries, socioeconomic characteristics, school district boundaries, interviews with city officials and the experience of the comparable multifamily properties at the geographic level.
- 4.2 Provide the following demographic information for the primary market area, giving historical data as well as current data and estimates. Include data on population and households at the proposed time of market entry (i.e. 2007). Projections must be prepared by a reputable source such as Claritas, ESRI, or the State Data Center. If the market analyst does not agree with these projections, then provide in addition, the reasoning, along with substitute projections. Both numbers and percentages should be shown for the data below. Annualized growth figures should be included. Please include a narrative description of the data presented including overall conclusions.

Population Trends

- 4.2.1 Total Population.
- 4.2.2 Population by age groups of five years or less.

4.2.3 Number of elderly and non-elderly.

4.2.4 If a special needs population is proposed for the project (i.e. assisted living, migrant workers, homeless), provide additional information on population growth patterns specifically related to this population.

Household Trends

4.2.5 Total number of households and the average household size.

4.2.6 Household by tenure; by the number of owner and renter households. (Breakout by elderly and non-elderly).

4.2.7 Households by income. (Breakout income distribution by elderly and non-elderly).

4.2.8 Renter households by number of persons in the household.

Employment Trend

4.2.9 Employment by industry—numbers and percentages.

4.2.10 The major current employers, product or service, total employees, anticipated expansions, contractions in their workforces, as well as newly planned employers and their impact on employment in the market area.

4.2.11 Unemployment trends for the market area and, where possible, the county total workforce figures and number and percentage unemployed. Provide annualized figures for unemployment trends for the last two to four years (i.e. average annual increase of unemployment of 1.2%).

4.2.12 A map of the site and location of major employment concentrations.

4.2.13 A narrative analysis of data provided, including overall conclusions, is required. Relate data to impact on housing demand.

Section 5. Demand Analysis

5.1 Income Restrictions: Use the applicable incomes and gross rents in the information submitted by the Developer to IFA. Be aware of the specific income restrictions that apply. For example, in Low-Income Housing Tax Credit (LIHTC), Developers must elect to set-aside either at least 20% of the units for households earning no more than 50% of area median gross income (AMGI) or at least 40% of the units for households earning no more than 60% of AMGI. Developers may select deeper targeting than the minimums listed in order to receive points under the QAP. Additionally, for projects that require funds from the HOME program or other programs, these program requirements must also be met. Analysts must take the income restrictions designated in the application into account when estimating demand. The market study must include data for each income group targeted by the project as described in the application. For example, if the project targets families at 50% of AMGI and lower, and families at 60% of AMGI and lower, demand projections using the above methodology must be provided for each income group.

- 5.2 **Affordability:** Analysts must assume no households are able to pay more than 35% of gross income towards total housing expenses. Use the following assumptions when determining the income range: one bedroom units have one occupant; two bedroom units have no more than three occupants; and three bedroom units have no more than five occupants. The demand analysis must clearly indicate the minimum income required to pay the gross rent amount without any rental assistance and maximum income range for each targeted group. The analyst must make a reasonable determination of maximum income level beyond which a household would not likely be a participant in the rental market. The analyst must clearly state the assumption used in making the determinations.
- 5.3 **Demand from current households and the projected change in the number of households:** This should be determined using 2000 census data and projecting forward to the anticipated placed in service date of the project using a growth/decline rate established from a reputable source such as Claritas, ESRI, or the State Data Center. These households must be limited to the target population, age and income. The demand for each income group targeted (i.e. 40/50/60% AMGI) must be shown separately. For affordable assisted living programs, the market analysis should focus on income eligible seniors age 70 and older. Summary tables must be completed and included in the market study. The example below or a functional equivalent must be provided.

	HH at 40% AMGI (min. income to max. income)	HH at 50% AMGI (min. income to max. income)	HH at 60% AMGI (min. income to max. income)
Number of age appropriate households (2000 Census)			
Plus			
Projected change in the number of households at the placed in service date (positive or negative)			
Equals			
Total number of households at the placed in service date			
Multiplied			
By the percentage of renters based on the 2000 Census			
Equals			
Number of renters at the placed in service date			
Multiplied			
By the percentage of renter households in the income range identified			
Equals			
Number of age and income qualified renter households at the placed in service date			

- 5.3.1 **Demand from elderly homeowners likely to convert to renters.** IFA recognizes that this type of demand may be a factor in the demand for elderly rental units. Interviews with property managers of comparable projects regarding elderly renters who have come from homeownership must also be used to determine this demand. A narrative of the steps taken to arrive at this demand must be provided.

5.3.2 Affordable Assisted Living projects may have less than 70% of demand generated from the primary market area. A market analysis for affordable assisted living should include an evaluation of the availability and occupancy rates of the following in both the primary and secondary markets: other AL programs, subsidized senior housing programs, nursing homes and home health agencies providing services to Medicaid-eligible clients, and the number of clients in the primary and secondary markets who are enrolled in the Medicaid Home and Community Based Services elderly waiver program. The analysis should also include the population of persons 45 to 65 years of age in the primary market area. This age range may be decision influencers for persons interested in an assisted living environment currently residing outside the primary market area.

5.4 Capture Rate Calculation: Capture rates must be completed for the entire project and for each targeted income group separately. The capture rate is calculated by dividing the number of proposed units in the project by the number of age and income qualified renter households in the primary market area. Include a narrative on what these capture rates may mean for the project (i.e. given the analysis market area, bedroom size mix, and other factors within this market study are these capture rates excellent, good, average, or do they cause concern?).

5.5 Penetration Rate Calculation: Penetration rate must be calculated for the current conditions in the primary market area using the existing LIHTC units plus all LIHTC projects under construction and LIHTC projects awarded, divided by the number of age and income qualified renter households in the primary market area that were identified above. A second penetration rate must be calculated with the addition of the proposed project in the primary market area. Include a narrative on what these penetration rates may mean for the project (i.e. given the analysis market area, bedroom size mix, and other factors within this market study are these capture rates excellent, good, average, or do they cause concern?).

5.6 Absorption Rate Calculation: Absorption rates, which give an estimation of the time it is expected the project will take to reach 93% occupancy, must be provided. The absorption rate analysis must consider such factors as the overall estimate of new household growth, the availability of subsidies, household turnover and rent specials. The absorption period is considered to begin on the placed in service date provided in the application. The analyst must include a written opinion as to whether the vacancy and stabilization rates for the primary market area are or are not reasonable and whether or not high vacancy rates will occur. Sufficient documentation to support this conclusion with regard to the effects on the project must be included.

Section 6. Analysis of Comparable and Competing Rental Properties

6.1 The analyst must visit comparable and competing properties in the primary market area. Comparable properties are those properties that are similar to the project in ways such as construction, size, physical amenities or age. Competing properties are those properties that would compete with the proposed project in net monthly rent levels and have similar tenant profiles that would be expected in the proposed project. Therefore, existing multifamily units with rents similar to the project, including those with slightly lower or higher rents should be analyzed as a competing property. Federal and state assisted projects must be considered, and specifically identified and analyzed. The analyst must affirmatively state if there are no low-income projects in the primary market area. If the property is a family project, market area elderly projects are not competitive with family units, and therefore should not be included in the competitive analysis. If the project is for Older Persons, a family project may be considered competitive and should be included in the competing analysis if the analyst

determines that it is a true competitive property. The analyst must consider existing multifamily projects, multifamily projects currently under development, and multifamily properties expected to begin construction prior to the entrance of the project in the primary market area. In rural areas lacking sufficient multifamily comparable or competing properties, provide data on single-family rentals, rental trailer homes, duplexes, triplexes and single family homes in an attempt to identify housing options for potential tenants.

The information on the comparable and competing properties must be listed separately. The following information must be included for each property:

- Name and address of the property.
- Name and phone number of contact person and date contact was made.
- Description of property (e.g., unit type, unit size, unit mix, interior amenities, exterior amenities, structure type, etc.).
- Photographs of each property
- Square footage by unit type.
- Net Monthly rents
- Gross Monthly rents
- Utilities included in the rents for each unit type.
- Property age and current physical condition based upon a cursory exterior inspection.
- Concessions given, if any. Concessions should be explained and their impact given.
- Current vacancy rates, historic vacancy factors, waiting lists and turnover rates, broken down by bedroom size and structure type. In addition, indicate the lease up history of the properties in the proposed market area.
- Number of units receiving rental assistance, description of assistance as project or tenant based.
- If the project represents an additional phase of an existing housing project, include a tenant profile as well as additional information related to concessions offered or households on a waiting list of the existing phase.

The above information should be provided in a comparative framework with the proposed project. For example, in addition to providing a page of information along with pictures of the property, the analyst should also provide a comparative chart that shows such details as the project's rents, square footage, amenities, etc. as compared to the other properties.

- 6.2 Maps showing the comparable and competing properties in relation to the subject must be included. The maps must have an identifiable usable scale. Assisted projects must be specifically identified. Assisted rental housing projects include Tax Credit, HUD and USDA financed projects.
- 6.3 Based on the comparables identified above, determine the market rent of the units in the proposed project and the market advantage the rents of the proposed project would have over the comparables. In deriving a market rent the market study analyst must use the Rent Grid (HUD 92273-S8) to document both the characteristics of the subject and the comparables and the adjustments made for differences between a comparable and the subject.

A Rent Grid is required for each primary unit with complete data and an adjustment column for each comparable. All lines of the data columns must be complete, including lines/characteristics for which no adjustment will be made.

The market study analyst must provide a concise narrative justifying why each adjustment was made and how the dollar value of the adjustment was derived. A simple reiteration of an

adjustment is not acceptable. A separate narrative of explanations is required for each Grid. An explanation is required if the data columns show a comparable differs significantly from the subject.

- 6.4 Based on the number of competing properties that are market rate units in the primary market area, discuss the expected magnitude of the change in the penetration rates calculated above when including these competing market rate units to the LIHTC units used in the calculation. Include a narrative on what these expected penetration rates may mean for the project (i.e. given the analysis market area, bedroom size mix, and other factors within this market study are these penetration rates excellent, good, average, or do they cause concern?).
- 6.5 Address whether the project, in light of vacancy and stabilization rates of the local market area, is likely to result in a higher vacancy rate in competing properties within the market area. Specifically, information on other LIHTC funded projects located in the project's primary market area and those within a reasonable distance from the project must be included.
- 6.6 For developments in the planning, rehabilitation, or construction stages, provide the name of the project, address/location, name of owner, number of units, unit configuration, rent structure, estimated date of market entry, and any other relevant market analysis information. If there are no developments in the planning stages or under construction, a statement to that effect must be provided. The market study must also include information on the availability and proximity of land in the proposed market area that is zoned or could be zoned for multifamily use.
- 6.7 An analysis of the Section 8 vouchers available in the community must be included. If vouchers go unused this must be explained. If there is a waiting list, this must also be documented.
- 6.8 The analyst must note the primary housing voids in the market and comment on whether the project would target such voids.

Section 7. Interviews

The results of formal and informal interviews with property managers, town planning officers, service providers or anyone with relevant information relating to the overall demand of the project must be summarized in this section. The market analyst must also indicate whether they had any formal and informal interviews with the Developer of the proposed project and if applicable, summarize the information discussed in the interview.

Section 8. Conclusions and Recommendations

Market Analyst must provide a conclusion and opinion regarding the factors analyzed in the market study stating whether there is a market for the project as proposed and whether the project will or will not experience chronic inability to consistently maintain at least a 93% occupancy rate. The analyst must provide a summary of all the major factors that have led to their conclusion. If recommendations are included and relate to: income targeting, rents, bedroom mix or project size or another recommendation which would be substantial to the project's positive recommendation a statement should be provided to clarify if the project could still maintain a positive recommendation if recommendations were not implemented.

Section 9. Signed Statement Requirements

A signed and dated statement must include the following language:

I affirm that I, or an individual employed by my company, have made a physical inspection of the market area and that information has been used in the full study of the need and demand for new rental units. To the best of my knowledge, the market can (cannot) support the project as shown in the study. I understand that any misrepresentation of this statement may result in the denial of further participation in IFA's rental housing programs. I also affirm that I have no interest in the project or relationship with the Developer or ownership entity and my compensation is not contingent on this project being funded.

Section 10. Comparison of Assigned Projects

In a separate letter after Pre-Application and Post-Application studies have been completed, the Market Analyst must state which of the assigned projects should be considered to be competing within the same market area. The analyst must also address whether or not the market area can sustain more than one of the Tax Credit projects assigned. If the analyst believes that the market can sustain more than one Tax Credit project, the analyst must discuss the number of projects the market can sustain and limitations. Additionally, the analyst must provide a brief comparison of these projects, noting whether or not one project can be said to be a more competitive proposal for the market than the other. If an assigned project is not competing with any other proposals, the analyst must make a statement to this effect.